OFFICE OF THE INTERNAL AUDITOR

Annual Report 2018

February 13, 2019

To: **Mr. Gary Aubuchon,** Citizens Interim Chairman of the Board of Governors
Ms. Bette Brown, Citizens Audit Committee Chairperson
Mr. Marc Dunbar, Citizens Audit Committee Member
Mr. James Holton, Citizens Audit Committee Member
Senator John McKay, Citizens Audit Committee Member
Mr. Barry Gilway, President/CEO and Executive Director

CC: **The Honorable Ron DeSantis**, Governor
The Honorable Jimmy Patronis, Chief Financial Officer
The Honorable Ashley Moody, Attorney General
The Honorable Nikki Fried, Commissioner of Agriculture
The Honorable Bill Galvano, President of the Senate
The Honorable Jose R. Oliva, Speaker of the House of Representatives

Members of Citizens Property Insurance Corporation Board of Governors

Dear Messrs. Aubuchon, Brown, Dunbar, Holton, McKay and Gilway

I am pleased to submit our Office of the Internal Auditor (OIA) Annual Report as required by Section 627.351(6)(i).2., Florida Statutes. The report summarizes the department's structure and staffing, applied audit methodology, and results from the audit work completed during 2018.

I welcome your comments and suggestions regarding this report, and appreciate the support provided by the Board of Governors, the Audit Committee and Senior Management. The OIA looks forward to serving the Board of Governors, the State of Florida and contributing to Citizens' efforts to achieve the corporation's goals and objectives. Thank you for your continued support as we move into 2019.

Respectively submitted,

Joe Martins, CIA, CRMA, CFE
Chief of Internal Audit
Office of the Internal Auditor

Gary Aubuchon, Interim Chairman, Lee County ● Bette Brown, Monroe County
Blake Capps, Martin County ● Marc W. Dunbar, Leon County ● James Holton, Pinellas County ● William Kastroll, Collier County
John McKay, Manatee County ● Freddie Schinz, Okaloosa County ● John Wortman, St. Johns County
Barry Gilway, President/CEO and Executive Director

Executive Summary

The Office of the Internal Auditor (OIA) is pleased to present the 2018 Annual Report for Citizens Property Insurance Corporation (Citizens).

Florida Statutes require the Chief of Internal Audit to submit an annual report on or before February 15, summarizing the activities of the OIA during the preceding fiscal year. Per Statute the report should include, but not be limited to: an evaluation of the effectiveness of Citizens' internal controls; recommendations for corrective action, if necessary; and summaries of the audits, reviews and investigations conducted by the office.

This report is presented to Citizens' Board of Governors, the Executive Director, the members of the Financial Services Commission, the President of the Senate and the Speaker of the House of Representatives to comply with Florida Statutes and to provide information on how the OIA accomplishes its mission.

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The OIA has been committed to developing a credible, sustainable and value-added internal audit program to meet the statutory requirements as defined in the Citizens statute and the expectations of the Board of Governors, Audit Committee and Citizens management. In order to ensure that the OIA remains appropriately focused, we develop an annual audit plan (approved by the Board of Governors) that adequately addresses risks independently assessed by OIA and confirmed with Citizens management.

The results of our audit work completed during the year indicated that Citizens has a well-established and functioning control environment. In comparison to previous years the results from our work remain consistent year over year and do not give rise to concerns regarding audit findings and impact on the overall control environment.

To have greater oversight and insight into the efficiency and effectiveness of key controls within the organization, Citizens commenced with the rollout of an Internal Control Framework across all disciplines. This project is overseen by the Chief of Internal Audit, under the direction of Citizens' Audit Committee, and follows a traditional control assessment lifecycle like the one widely used by Sarbanes–Oxley (SOX) and Model Audit Rule (MAR) compliant entities. The Citizens Internal Control Framework (CICF) project is designed to provide Citizens stakeholders with assurances that management is conducting business within a sound and proven internal control environment. Not only is this project designed to provide ongoing assurance coverage throughout many layers of the organization but also it is performed in a way that adapts to changes that occur over time.

In support of a collaborative assurance approach the Chief of Internal Audit oversees Citizens Enterprise Risk Management initiative, under the direction of Citizens Audit Committee and the

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Citizens Risk Steering Committee. Citizens developed an enterprise risk framework closely aligned to the new COSO ERM Framework of June 2017.

We welcome your comments and suggestions regarding the 2018 Annual Report. The OIA looks forward to serving and supporting the Board of Governors, the State of Florida and contributing to Citizens' efforts to achieve its goals and objectives. Thank you for your continued support as we move into 2019.

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Introduction

Background

Citizens Property Insurance Corporation (Citizens) operates according to statutory requirements created by the Florida Legislature and a Plan of Operation approved by the Florida Financial Services Commission. The corporation is subject to operational reviews and examinations by the Florida Office of Insurance Regulation and the Florida Auditor General, and its financial statements are a major component of the Florida Comprehensive Annual Financial Report. Three types of insurance coverage accounts were established when Citizens was created: personal lines (PLA); commercial lines (CLA); and coastal (Coastal). Citizens currently has offices in Tallahassee and Jacksonville. Tallahassee is the corporate headquarters for the organization while the Jacksonville office provides policy services and underwriting, claims and customer support as well as other administrative and organizational support functions.

Citizens' management continues to focus on process improvement and strengthening the control infrastructure, which supports changes to build the needed infrastructure and operational processes to support the corporation. There are several ongoing projects and operational changes that are at various stages of completion to ensure Citizens can continue to support its policyholders and is catastrophe ready.

During the year, Citizens responded to property damage incurred by insureds following Hurricanes Irma and Michael. Citizens' response to the catastrophe events impacted all parts of the Citizens organization and the OIA amended its work program to provide assurance and advisory activities where appropriate.

OIA Duties and Responsibilities

The purpose, authority and responsibility of the Office of the Internal Auditor (OIA) are vested in Citizens' enabling Statute Section 627.351(6)(i). Florida Statutes. In addition to the statute Citizens' Board of Governors delegated oversight of the OIA to Citizens Audit Committee who further defined the OIA's authority and responsibilities in the internal audit charter. This charter is consistent with the Citizens enabling statute, the definition of internal auditing, the code of ethics and the International Standards for the Professional Practice of Internal Auditing as defined by the Institute of Internal Auditors (the IIA Standards).

In accordance with Section 627.351(6)(i). Florida Statutes, it is the duty and responsibility of the Chief of Internal Audit to:

- Provide direction for the OIA including supervising, conducting and coordinating audits, investigations and management reviews relating to Citizens' programs and operations.

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- Conduct, supervise or coordinate other activities carried out or financed by Citizens for promoting efficiency in the administration of, or prevention and detection of, fraud, abuse and mismanagement in its programs and operations.
- Submit final audit reports, reviews or investigative reports to the Board, the Executive Director, the members of the Financial Services Commission, the President of the Senate and the Speaker of the House of Representatives.
- Keep the Board informed concerning fraud, abuses and internal control deficiencies relating to programs and operations administered or financed by Citizens; make recommendations for corrective action; and report on the progress made in implementing corrective action.
- Cooperate and coordinate activities with the corporation's inspector general.

Additionally, the OIA works collaboratively with the external auditors (Dixon Hughes Goodman LLP) to support their financial statement audit. Consideration is given to other regulatory reviews/audits to minimize the duplication of audit coverage within Citizens.

In support of its mission, OIA's focus is to support Citizens in the achievement of its goals and ultimately to provide independent and objective assurance over the organization's enterprise risk management practices and internal control environment to the Audit Committee, Board of Governors and Management.

Organization and Administration
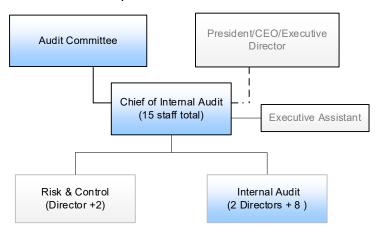
Organization Structure
The Chief of Internal Audit is appointed by the Board of Governors, reports to and is under the general supervision of the Board and is not subject to supervision by any Citizens employee. The Chief of Internal Audit reports to the Board through the Audit Committee. Apart from Internal Audit, the Chief of Internal audit also has leadership responsibility for Enterprise Risk (ER) and the Internal Control (IC) functions. Both ER and IC operate independently from Internal Audit with its own staff, distinct processes and individual administrative support systems.

To streamline the assurance efforts of internal audit, enterprise risk and internal control, and to enhance the organizational value of everyone involved, Citizens realigned these functions under one umbrella (the Chief of Internal Audit) focusing on improving collaboration and aligning assurance activities, especially in the areas of audit planning and board reporting. Based on the most recent update to the IIA Standards, Internal Audit should align their efforts with assurance partners in order "to ensure proper coverage and minimize duplication of effort" (IIA Standard 2050). Among the many benefits we see is that the organization is starting to speak about are topics like risks, controls, and issues using one consolidated terminology, increase efficiency in collecting and reporting information, and ultimately, we'll experience more effective governance, risk, and control oversight. By building relevant partnerships with other internal assurance teams,

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we will naturally prevent management from being overwhelmed by information and reports and succumbing to "assurance (audit) fatigue".

The following chart details the OIA departmental structure.

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┌─────────────────────┐        ┌─────────────────────────┐
│   Audit Committee   │        │ President/CEO/Executive │
│                     │        │        Director         │
└─────────────────────┘        └─────────────────────────┘
          │
          │        ┌──────────────────────────┐
          │────────│  Chief of Internal Audit │┄┄┄┐
                   │     (15 staff total)     │   ┊  ┌──────────────────────┐
                   └──────────────────────────┘   └┄┄│  Executive Assistant │
                          │                          └──────────────────────┘
          ┌───────────────┴───────────────┐
┌─────────────────────┐        ┌─────────────────────┐
│   Risk & Control    │        │   Internal Audit    │
│    (Director +2)    │        │  (2 Directors + 8 ) │
└─────────────────────┘        └─────────────────────┘
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Training

In alignment with the *International Standards for the Professional Practice of Internal Auditing,* the OIA staff is required to receive at least 80 hours of continuing education to maintain professional proficiency. This is accomplished by having staff attend seminars, conferences, work groups, internally offered training and webinars.

Certifications and Advanced Degrees

The OIA brings various backgrounds of expertise to Citizens. Certifications and advanced degrees held by the Chief of Internal Audit and/or staff during the reporting period include:

- Certified Internal Auditor
- Certified Financial Services Auditor
- Certified Information Systems Auditor
- Certified Public Accountant
- Certified Information Security Manager
- Certified Fraud Examiner
- Certificate in Risk Management Assurance
- Certified in Risk and Information Systems Control
- Master of Business Administration
- Master of Science in Information Assurance
- Master of Science in Computer Information Systems

Affiliations

The OIA participated in various affiliations during the reporting period, in support of the internal auditing profession, and gained insurance industry knowledge through attendance at chapter meetings and industry focused training:

- The Institute of Internal Auditors (IIA) & affiliates

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- Insurance Internal Auditing Group (IIAG)
- Insurance Accounting and Systems Association (IASA)
- Information Systems Audit and Control Association (ISACA)
- Association of Certified Fraud Examiners (ACFE)
- The American Institute of Certified Public Accountants (AICPA) & affiliates
- The Risk Management Society (RIMS)

Internal Audit

In executing the audit plan, Citizens Internal Auditors provided independent, objective assurance through audit and advisory services that are designed to add value and improve Citizens' operations. Internal Audit managed a flexible audit plan that considers changes in business operations and ensured that audit engagements focused on areas of most importance. We completed an audit plan which included 31 engagements that provided independent assurance and delivered value to the organization in strengthening oversight and control. The following reports/memorandums were issued:

- **Assurance (Audit) Engagements**
  Through audits the OIA evaluates Citizens internal controls, corporate governance and accounting processes. We provide reasonable assurance on compliance with laws and regulations and accurate and timely financial reporting and data collection, as well as helping to maintain operational efficiency by identifying problems and correcting lapses.

  - Annual Legislative Changes
  - CAT Emergency Procurement
  - CAT Field Checks
  - CAT Independent Adjuster Day Rate and Fee Bill
  - CAT Pay Policy & Execution
  - CAT Travel Expenses
  - Centerpoint Access (HCM-Payroll)
  - Field Check Inventory

  - Investment Management
  - Irma Project Impact
  - Network Assessment
  - Office of Foreign Asset Control (OFAC)
  - Self-Insured Health Plan
  - Social Media
  - Third Party Access
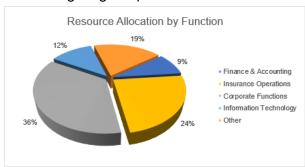 - Vendor Management Office
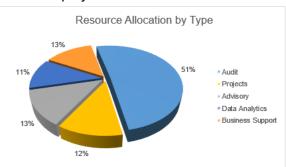
- **Consulting (Advisory) Engagements**
  Through advisories the OIA, usually at management's request, assesses current business practices and provides value added guidance to improve governance, risk management, and control processes.

  - Assistance to the Inspector General
  - Data Retention
  - Enterprise Rhythm Program
  - Financial Ratios Benchmarking

  - Tampa Data Center Migration
  - VMO-Responsible Vendor Review
  - Centerpoint Phase 1 Post-Implementation

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The following diagram provides an overview of resource deployment:

Process Enhancements
We stay abreast of developments in the audit world and adopt leading practices where these will improve our service delivery. Some of the changes made to our audit approach include:

- Refreshed the OIA report design and logo for a more progressive look to the department.
- Designed and implemented a continuous risk assessment and focused theme approach towards determining audit engagements included in the 2019 Audit Plan.
- Developed a forensic audit and fraud awareness program focused towards proactive assessing fraud risk and process weaknesses through data analytics supported by red flag assessments and a detailed awareness campaign that potentially reached 100% of the organization through the internal webpage, digital signage, updated annual attestation, and formal presentations.

Standards of Audit Practice
Citizens operates according to Section 627.351(6)(i), Florida Statutes, and the *Plan of Operation* approved by the Florida Financial Services Commission. Given that the OIA statute does not include a specific requirement for auditing standards to govern the Citizens' OIA program, OIA elected to follow the *International Standards for the Professional Practice of Internal Auditing (2017 edition)* for all engagements:

Attribute Standards	Performance Standards
1000 – Purpose, Authority, and Responsibility	2000 – Managing the Internal Audit Activity
1100 – Independence and Objectivity	2100 – Nature of Work
1200 – Proficiency and Due Professional Care	2200 – Engagement Planning
1300 – Quality Assurance and Improvement Program	2300 – Performing the Engagement
	2400 – Communicating Results
	2500 – Monitoring Progress
	2600 – Communicating Acceptance of Risks

The OIA further uses other accepted industry frameworks for guidance when conducting audits. These include: The Committee of Sponsoring Organizations of the Treadway Commission (COSO

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2013); the Control Objectives for Information and related Technology (COBIT), the Information Technology Governance Institute (ITGI), the National Institute of Standards and Technology (NIST) and Information Technology Infrastructure Library (ITIL) when conducting technology audits.

Annual Planning

The OIA continues to refine its internal audit methodologies and processes for Citizens. The audit plan is based on a quarterly risk-based methodology, and execution of this plan is in accordance with Florida Statutes and in compliance with the IIA's International Professional Practices Framework, which provides standards that delineate basic principles representing the practice of internal auditing.
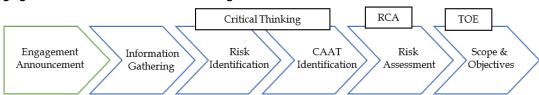
The OIA conducts an independent risk assessment of Citizens' business units which begins with interviewing Senior Management, and Management; reviewing prior internal/external/regulatory audit results; analyzing financial statements; and considering Citizens strategic goals and initiatives for the year and collaborating with Enterprise Risk. This information is aggregated into a detailed operational risk assessment, allowing the OIA to identify those risks that have the highest potential of adversely affecting the Company and its operations from achieving strategic goals and objectives. This "Top Down" approach allows for the proper alignment of audit activities to provide assurance and mitigate risk within the organization at the enterprise and process levels.

Citizens is best served by an audit plan that is dynamic in nature – continually adjusted to meet the needs of the corporation. Key events that may affect the audit plan may include operational changes, legislative decisions and/or storm season impacts. During 2018, in developing the 2019 audit plan, we revisited our risk identification and analysis process to better understand the Audit Universe (i.e., number of total processes) and improve audit coverage. The 2019 Audit Plan was approved by the Citizens Audit Committee and is available upon request.

Assurance (Audit) Engagement

In the execution of audits, OIA developed three phases in the internal audit process. These were formalized so that we ensure that the auditor follows a process that allows for consistent execution and thorough evaluation of risks and mitigation controls. The activities performed during each phase include, but are not limited to, the following:

- Engagement Notification and Planning

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Information gathering focuses on understanding the business area and obtaining enough information to facilitate the efficient execution of the audit. The auditor performs an analysis of the risks noted at the engagement level in order to develop the objectives and scope of the engagement. Prior to commencing with the audit, the auditor communicates and agrees the engagement objectives, scope and timing with key stakeholders or customers in the relevant business area.

- Fieldwork

Audit engagement fieldwork is carried out to provide enough reliable and relevant evidence that provides the basis for an opinion on control design and operational effectiveness. The Auditor first assesses whether controls in place are appropriately designed to address the risks they were designed to mitigate. In instances where there are no controls, or where controls are inappropriately designed, these findings can be turned into recommendations for improvement with limited further testing to quantify the exposure (likely impact /consequences and materiality of poor design). Following the assessment of control design, further assurance is sought through sample-based testing of the operation of identified key controls. The decision on whether to proceed to test operational effectiveness will depend on the significance of that control and whether more relevant compensating controls exist. Again, in instances where it is found that controls are not executed as designed, these findings are turned into recommendations for improvement.

- Wrap-up & Reporting

Control issues identified during the engagement are documented and communicated to stakeholders/customers. Our principal product is the final report in which we express our opinion, present the audit findings, and discuss recommendations for improvement.

Every issue identified and documented in the course of an audit is rated either *high, medium* or *low* depending on the assessed impact of the issue upon the efficiency and effectiveness of the control structure being assessed. The audit issue ratings help determine the audit report rating, which is either unsatisfactory, needs minor improvement, needs improvement or satisfactory. Final audit reports are issued to management, the Audit Committee, Members of the Financial Services Commission, the Speaker of the House of

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Representatives, and the President of the Senate as required by s. 627.351(6)(i)1.c., F.S. After the conclusion of each audit, the OIA monitors the implementation of management's action plans, using the open-items process described in the Open Items Process section.

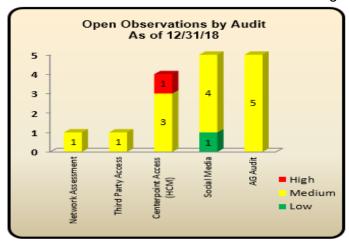**Consulting (Advisory) Engagement**

In addition to internal audits, the OIA also provides consultative (advisory) services to the organization. The focus and scope are agreed with the client and are intended to add value and improve the organization's governance, risk management, and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation and training. During advisory engagements, OIA reviews specific aspects of a function, system or activity and provides expertise, opinions and/or suggestions for courses of action. The nature of the engagement will determine the result, which may range from oral presentations or discussions to memos summarizing the project results. An audit opinion is not rendered on the adequacy of the control environment due to limited test work and scope of project.

Internal Investigation

The OIA developed the *OIA Inquiries and Investigations Policy and Procedures* to document its standardized methodology for evaluating, investigating, documenting and reporting findings. Where there is enough cause or predication the OIA would, in consultation with the IG, complete investigations associated with abuse, control deficiencies, misappropriation of assets, fraud, and mismanagement. For 2018, no investigations were conducted by the OIA.

Open Items

The OIA developed the Open Items Process, Corporate Policy 802. The Open Items Policy addresses the process administered by OIA for follow-up, escalation, and resolution of audit observations and recommendations. The process has been established to ensure that management action plans have been effectively implemented or that management has accepted the risk of not taking action on audit results. This process was established in accordance with the International Standards for the Professional Practice of Internal Auditing Standards 2500.

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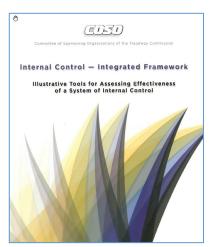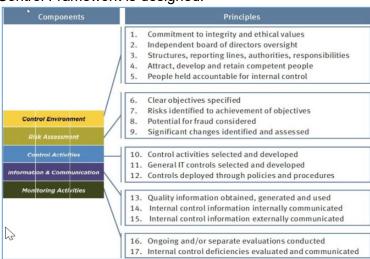
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Open Items statistics and those that are rated *high* or *past due* are provided to the Audit Committee on a quarterly basis. Management is taking appropriate action on the issues reported and the OIA monitors progress on the implementation of corrective action.

Internal Control Framework (ICF)

Although Citizens is not legally required to be compliant to any standard specific to its corporate structure or industry in the way that US public companies or non-public insurers must adhere to the requirements of the Sarbanes Oxley Act (SOX) or the Model Audit Rule (MAR), Citizens Board of Governors and Senior Management saw the embedded value of a strong internal control environment. As such the Chief of Internal Audit and the Citizens Chief Financial Officer together were tasked to develop an approach to monitor the strength of Citizens' control environment. We chose to implement an internal control framework that is materially based on the Internal Control Framework structure developed by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) 2013 which complemented the uniqueness of Citizens' operations, business goals and existing risks, and meets relevant principles embedded in leading standards. While the COSO 2013 framework allows Citizens to establish an operational internal control benchmark, we are leveraging the Control Objectives for Information and Related Technology (COBIT 5) model for determining IT control effectiveness.

The COSO framework focuses on 5 components of internal controls and explicitly articulates 17 principles to consider as the Internal Control Framework is designed:

COSO
Committee of Sponsoring Organizations of the Treadway Commission

Internal Control — Integrated Framework

**Illustrative Tools for Assessing Effectiveness
of a System of Internal Control**

Components	Principles
	1. Commitment to integrity and ethical values 2. Independent board of directors oversight 3. Structures, reporting lines, authorities, responsibilities 4. Attract, develop and retain competent people 5. People held accountable for internal control
Control Environment **Risk Assessment**	6. Clear objectives specified 7. Risks identified to achievement of objectives 8. Potential for fraud considered 9. Significant changes identified and assessed
Control Activities	10. Control activities selected and developed 11. General IT controls selected and developed 12. Controls deployed through policies and procedures
Information & Communication	13. Quality information obtained, generated and used 14. Internal control information internally communicated 15. Internal control information externally communicated
Monitoring Activities	16. Ongoing and/or separate evaluations conducted 17. Internal control deficiencies evaluated and communicated

Following approval from the Audit Committee OIA formed an internal controls team. This team was tasked to develop a control management process, implement a suitable controls management system and to commence implementing the defined Internal Control Framework.
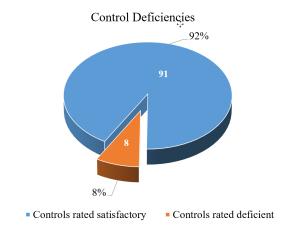
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Approach

Upon finalizing the ICF roll-out approach OIA assessed Citizens process universe and selected 71 processes in-scope for inclusion within the ICF. Once the in-scope processes were established the internal Control team commenced with the roll-out of an annual control assessment lifecycle consisting of 5 major steps which include defining the scope of review, developing/updating process documentation and identifying key controls, testing key controls, concluding on and reviewing controls tested, and understanding the risks posed by any deficiencies left un-remediated by the end of the cycle.

ICF Progress

Of the 71 identified processes OIA, together with operational business unit management, completed 54 initial process reviews with the final 17 reviews scheduled for completion in Q2 2019.

Annually control self-assessments (CSA's) are performed by business unit management upon completion of the initial process reviews to ensure ongoing control design and operating effectiveness. To date we noted some deficiencies in eight of the controls assessed and for each, appropriate corrective action is in progress.

Control Deficiencies

- Controls rated satisfactory ■ Controls rated deficient

Enterprise Risk Management (ERM)

During 2017 the Chief of Internal Audit was tasked to oversee Citizens Enterprise Risk Management initiative, under the direction of Citizens Audit Committee and the Citizens Risk Steering Committee. Following this assignment, the OIA developed an enterprise risk framework closely aligned to the new COSO ERM Framework of June 2017 and recruited an Assistant Director to oversee the roll-out of Citizens ERM Framework.

Citizens' management has primary responsibility for identifying, controlling and monitoring risks within their processes. The enterprise risk team (ER) is responsible for coordinating, developing

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and monitoring Citizens' risk management framework and processes and supports and challenges the business with the identification, assessment and mitigation of current or emerging risks.

During 2018 ER focused its efforts to the rollout of a detailed and comprehensive strategic risk identification and assessment approach. In support of the Internal Control Framework initiative ER continued to conduct inherent operational risk assessments throughout the organization. ER further selected and procured a SAAS based ERM administration solution which is currently being implemented.

In the execution of its 2019 work plan ER will:

- Promote structure, transparency, consistency, and uniformity among internal ERM community.
- Facilitate the identification and evaluation of risks throughout the organization and support the use of a consistent aligned approach across Citizens.
- Enable management across all levels of the organization to self-identify, evaluate, record and manage risks through the provision of guidance, training and a software solution.
- Convert disparate risk and control data into integrated informational views.
- Proactively identify, assess, measure, manage and monitor Citizens' risk portfolio.
- Empower management to make risk-informed resource utilization decisions.
- Validate that current residual risk exposure is aligned with risk appetite.

Risk management assessments are being conducted from three different perspectives: top-down (strategic risk); bottom-up (operational risk); and project risk.

Appendix 1

Appendix 1 – Audit Engagement Summaries

During the year, the OIA's risk-based approach covers many elements of the corporation's internal control systems; it is not intended to cover all areas of the corporation, nor all possible areas of risk. Instead, we focus our resources on those areas that were evaluated as the highest priority in terms of greatest risks and where our work could be most valuable, either by providing assurances through information or by effecting positive change.

Citizens' management is responsible for establishing and maintaining an effective internal control structure. The OIA evaluates and reports on the design and effectiveness of that internal control structure. Areas of audit coverage include internal audits, advisory services and financial statement audit support.

Internal Audits
Internal audits are designed to provide reasonable assurance to the Board of Governors and senior management that the controls designed and implemented by management can be relied upon to mitigate the risk within the organization to an acceptable level. There are various types of audits including operational, financial, forensic, compliance and information technology.

Advisory Services
Advisory services are generally less formal than audits, and as a result, an opinion is not being expressed as to the effectiveness of the controls and an audit rating is not applied. However, due consideration should be given by management to the adoption of internal control recommendations, to enhance the efficiency and effectiveness of the existing internal control environment under review.

External Audit Support (a.k.a. Client Assistance)
OIA coordinates audit engagements to maximize the reliance External Audit places on our work product. We further provide the External Auditors an opportunity to influence audit scope and audit procedures, for relevant projects, to increase reliance and reduce audit time and duplication.

Audit Engagement Summaries
The following internal audit summaries reflect reported audit results for areas in scope for 2018. All executive reports were issued to the Citizens Board of Governors (Audit Committee) and, in accordance with Florida Statutes, to the Financial Services Commission, Speaker of the House and President of the Senate. Detailed management reports are provided directly to the applicable management group.

- Annual Legislative Changes (Satisfactory) – The objective of this audit was to monitor steps taken by Citizens to comply with the 2018 legislation changes that impact the organization.

Appendix 1

The design and operating effectiveness of controls were evaluated to ensure effective identification, evaluation, and tracking of legislative changes impacting Citizens, in addition to communicating and monitoring the implementation of needed changes to comply with the law. Results from our audit work indicate that the processes and controls related to tracking and implementing changes to Florida statutes that impact Citizens are mature and well organized, allowing for changes to be effectively communicated, assigned, evaluated, and implemented in a timely manner.

- Assistance to the Office of the Inspector General – OIA provided support to the OIG on one of their projects focused towards providing guidance to Citizens' claims operations in strengthening controls designed to detect and/or prevent fraud.

- CAT Emergency Procurement (Satisfactory) - The objective of this audit was to evaluate the adequacy and effectiveness of processes and controls in place to ensure compliance with emergency procurement policies. The results from our work indicated that both the Vendor Management Office and Purchasing departments were able to fulfill and assist Citizens' need to procure goods during the declared emergency. VMO personnel improvised and utilized multiple technology resources to prioritize needs, obtain quotes, contact and mobilize vendors with existing contracts, enabling the business to meet their needs under stressful circumstances. OIA noted an opportunity to enhance the emergency procurement procedures which management has agreed to implement before the next hurricane season.

- Cat Field Checks (Needs Minor Improvement) - Through this audit we evaluated the design and effectiveness of the controls associated with the distribution and monitoring of field claim payment checks issued during hurricane Irma to ensure compliance with the respective corporate policies. Although we obtained reasonable assurance that field check ALE payments to impacted policyholders were properly authorized and accurately processed in accordance with existing procedures, we however noted that there were certain control activities which needed to be strengthened going forward to properly safeguard the field check stock. No instances of inappropriate ALE payments or misappropriation of field checks were noted.

- CAT Independent Adjuster Day Rate and Fee Bill (Satisfactory) - The objective of this audit was to obtain reasonable assurance that CAT Independent Adjuster Payments (Day Rate and Fee Bill) made during the current CAT event were being processed in accordance with established procedures and were valid and accurate. Through the audit we obtained reasonable assurance that the processes and internal controls for CAT Independent Adjuster Payments are operating effectively. OIA noted that Day Rate payments were made accurately in accordance with existing processes and applicable rate tables. In the case of Fee Bill payments, OIA noted a very small number of instances where duplicate payments were made for adjusting expense invoices.

- CAT Pay Policy and Execution (Satisfactory) - The objective of the audit was to evaluate the design and effectiveness of the controls over the Catastrophe Pay program to ensure

compliance with the respective corporate policies and procedures. Results from our audit work indicate that the corporate policies and procedures used to administer the Catastrophe Pay program sufficiently define the eligibility requirements, compensation criteria and authorization procedures. We also noted that the control processes are adequately designed to ensure that eligibility requirements are met, and transactions are properly approved and processed accurately. OIA recommended a process improvement opportunity to develop a centralized process to track and monitor Citizens' employees approved for Catastrophe Pay.

- CAT Travel Expenses (Satisfactory) - With this audit we evaluated the design and effectiveness of the controls over CAT travel expenses to ensure compliance with the respective corporate policies and to ensure the increased volume did not result in any control breakdowns. The results from our work indicate that Finance Accounts Payables' expense review processes functioned well through the increased expense volume. Some minor process improvement opportunities were identified and were discussed with management for consideration during their planning for the upcoming storm season.

- Centerpoint Access (HCM-Payroll) (Needs Improvement) – The HCM module within the Centerpoint application is utilized to enter, process, and manage payroll, benefits, time and labor, and talent management for Citizens. Privileged roles within the HCM module allow an assigned user the ability to create and modify employees' salaries, benefits, addresses, and bank accounts. Access management includes creating, modifying, terminating, and monitoring user access, roles, and permissions. Results from our audit work indicate that Human Resources, Information Technology, and the Centerpoint Project Team proactively collaborated to design and implement appropriate user access controls and to properly secure confidential data. However, system limitations, the complexity of Oracle roles and permissions, and the business need to create custom roles contributed to challenges in effectively managing user access. OIA noted that improvements are needed to strengthen controls related to ensuring users are assigned roles with the least privilege necessary to perform their job functions, monitoring of privileged users, the design and use of the firecall process to perform emergency administrative tasks, security of confidential payroll information, and ensuring the deactivation process for terminated employees is completed.

- Centerpoint Phase 1 Post-Implementation (Memorandum) - The OIA continues to provide advisory support for the implementation of Centerpoint by providing consultative advice regarding controls to business area and project management upon request, as well as confirms the effective utilization of project governance processes and timely escalation and handling of issues. The Centerpoint Project Team's tremendous efforts led to the successful and timely implementation of Phases 1, 2, and 4. Overall OIA noted that the Centerpoint Project Team continues to improve the efficiency of the implementation process throughout the project by identifying lessons learned from each phase that will benefit the implementation of remaining phases. Also, the project team has established an effective

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process to address system enhancements as well as defects. This process is well managed and comprehensive including the identification, escalation, and mitigation of risks.

- Data Retention – With this engagement, OIA provided advice and guidance relative to implementation of an operational work flow related to retention and deletion of structured and unstructured application and database data. The scope of work included developing an iterative process that includes: determination of application/database data retention schedules and data deletion; an assessment of the Enterprise Data Management (EDM) work group charter; and program recommendations so that electronic data retention better serves the needs of the organization.

- Enterprise Rhythm Program - The objective of this advisory was to partner with IT Management to assess the current maturity level and potential practice improvement opportunities related to the new enterprise planning and delivery framework referred to as Enterprise Rhythm as they continue to execute against their transformation roadmap. In support of management's initiative audit assisted with refining the list of advisory deliverables and identifying and screening vendors who have experience in the Scaled Agile Framework (implementation experience, assessment tools, and benchmark data) that may serve to meet the objectives of the engagement. Management completed the vendor selection and is in the process of procuring the consulting service.

- Field Check Inventory (Satisfactory) - With this targeted audit, we completed a detailed unused field check inventory to identify any potential missing checks so that appropriate actions could be taken if necessary. The results from our work did not identify any missing checks.

- Financial Ratios Benchmarking – The objective of this advisory was to support management with their analysis of Citizens' financial ratios.

- Investment Management (Satisfactory) – OIA assessed the adequacy and effectiveness of the processes, procedures and controls associated with investment management practices at Citizens. Results from our audit work indicate that Citizens' investment policies appear to be in alignment with Citizens' overall investment strategy, effective oversight is present, and access rights within critical investment systems are properly restricted. Specifically, we noted that the FactSet system is effectively aligned with Citizens' investment policies to allow management to monitor investment activity and performance of its' third-party investment managers. Overall, we noted that management oversight of the Company's externally managed portfolio and the third-party managers was effective. We observed that management utilizes leading portfolio risk management practices using quarterly stress tests to their portfolio. We also reviewed access rights within the NEXEN trading platform, as well as those in the Company's custodial banking system, and noted they were appropriately restricted, and no segregation of duties issues were present.

- Irma Project Impact (Satisfactory) - The objective of this audit was to assess whether decisions to delay enterprise projects following the Irma catastrophe response initiatives were appropriately reviewed with IT and business managers and that any potential

significant residual effects on the organization resulting from project date changes were escalated to ensure alignment with executive management's expectations. Our work noted that project changes were well communicated, and project changes created no significant residual effects on the organization.

- Network Assessment (Satisfactory) - The objective of this audit was to evaluate the effectiveness of the processes comprising periodic network penetration testing. The scope included an assessment of the IT Security policies and standards associated with periodic penetration testing. As well, the third-party test was assessed against Citizens' internal cyber security standards and industry leading practices. The OIA confirmed that a detailed and comprehensive set of tests were conducted by the vendor and that the policies, standards and overall effectiveness of the testing process were satisfactory. The vendor report indicated some opportunities for improvement, none of which were considered critical, and IT Management developed a comprehensive plan for remediation of the issues noted.

- Office of Foreign Asset Control (OFAC) (Needs Improvement) - The objective of this audit was to evaluate the adequacy and effectiveness of the processes and controls in place to ensure compliance with OFAC requirements. The results from our work indicate that Legal Services has compiled the pertinent transactional information and utilizes a screening system with the current Specifically Designated National (SDN) list to comply with OFAC requirements. During the audit, OIA noted a process disruption that impacted the screening of daily claimant files and determined opportunities to strengthen oversight and monitoring of the screening process.

- Self-Insured Health Plan (Satisfactory) - The objective of this audit was to evaluate the adequacy and effectiveness of controls related to managing the self-insured health plan. OIA confirmed that processes designed to manage the self-insured health plan are well managed with effective internal and external controls over financial accounting, reserving, member eligibility, and reconciliation of invoices. As the self-insured plan continues to mature, there will be additional opportunities to strengthen controls related to vendor monitoring and employee education to further mitigate risks. In the event the benefit consulting contract is re-solicited, key controls identified during the audit should be considered in future vendor selection.

- Social Media (Needs Minor Improvement) – With this audit we evaluated the adequacy and effectiveness of the processes, procedures, and controls in place to mitigate reputational risks associated with Citizens' social media program. Results from our audit work indicate that management proactively uses social media to support the organization's communication and outreach efforts to provide educational content such as storm and emergency preparedness, issues impacting the Florida insurance market and Citizens' policies and corporate initiatives to external stakeholders. Management also leverages social media as a recruiting tool to attract top talent for the organization. We also found that the Social Media Administrator and Customer Complaints Team provide timely resolution

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to customer inquiries, issues or concerns reported on the corporate social media accounts. Our work identified the need for management to develop formal strategy/plans and key performance indicators, review and update the corporate social media policies and develop internal procedures, reduce the number of personnel that have full administrative access to the corporate LinkedIn account, and ensure the designated Social Media Back-up is fully trained.

- Tampa Data Center Migration – The objective of our participation on this project was to evaluate key project management processes and controls comprising the data center migration efforts. Results from our work confirmed that project governance operated well. Stakeholders were defined, an escalation process was implemented, the policy and process were updated for the migration and team meetings occurred regularly. OIA monitored the project through the migration phase.

- Third Party Access (Needs Improvement) - This audit evaluated the adequacy and effectiveness of the processes and controls in place to manage third party access to Citizens' information assets such as data, applications, services and infrastructure. Our work indicated there are opportunities for improvement associated with Citizens' management of third-party access in the areas of governance as well as IT Security standards assignment and implementation.

- Vendor Management (Satisfactory) – With this audit we evaluated the adequacy and effectiveness of controls related to the Vendor Management Office monitoring of vendor contract compliance, escalation of non-compliance behavior, and compliance with regulatory requirements. Results from our work found that the processes are well managed with effective internal controls. Operational strengths noted include the performance of due diligence to support contract non-compliance decisions, training and educational materials developed for Contract Managers, maintaining and rehabilitating vendor contract relationships, and coordination of departments involved with the process.

- VMO-Responsible Vendor Review (RVR) - Internal Audit in collaboration with VMO Management developed an approach to determine the adequacy and comprehensiveness of the RVR program by performing a gap analysis comparing leading State of Florida agencies under the same purchasing regulatory requirements Section 287.057, F.S., to Citizens. Results from the gap analysis indicate that Citizens' Responsible Vendor Review due diligence process is equal to or more comprehensive than leading State of Florida Agencies. Under the requirements of Section 287.057, F.S. Citizens' responsible review process includes additional website searches and information gathering in the areas of Licensure and Designations, Litigation History, Tax Liens, Associated Business Profiles, Employment Review Sites, and other resources such as LexisNexis, Better Business Bureau, Google, Google Review Rating, and Yelp.